



# **FINAL BUDGET AND MTREF 2014/2017**

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## Glossary

**Adjustments Budget** – Prescribed in section 28 of the MFMA. The formal means by which a municipality may revise its annual budget during the year.

**Allocations** – Money received from Provincial or National Government or other municipalities.

**Assessment Rates** – Local Government taxation based on an assessed value of a property. To determine the rates payable, the assessed ratable value is multiplied by the rate in the rand.

**Budget** – The financial plan of the Municipality.

**Budget Related Policy** – Policy of a municipality affecting or affected by the budget, such as the tariffs policy, rates policy and credit control and debt collection policy.

**Capital Expenditure** – Spending on assets such as land, buildings and machinery. Any capital expenditure must be reflected as an asset on the Municipality's Statement of Financial Position.

**Cash flow statement** – A statement showing when actual cash will be received and spent by the Municipality. Cash payments do not always coincide with budgeted expenditure timings. For example, when an invoice is received by the Municipality it scores as expenditure in the month it is received, even though it may not be paid in the same period.

**DORA** – Division of Revenue Act. Annual piece of legislation that shows the amount of allocations from national to local government.

**Equitable Share** – A general grant paid to municipalities. It is predominantly targeted to help with free basic services.

**Fruitless and wasteful expenditure** – Expenditure that was made in vain and would have been avoided had reasonable care been exercised.

**GFS** – Government Finance Statistics. An internationally recognised classification system that facilitates like for like comparison between municipalities.

**GRAP** – Generally Recognised Accounting Practice. The new standard for municipal accounting and basis upon which the Annual Financial Statements are prepared.

**IDP** – Integrated Development Plan. The main strategic planning document of the Municipality

**KPI's** – Key Performance Indicators. Measures of service output and/or outcome.

**MFMA** – The Municipal Finance Management Act – no 53 of 2003. The principle piece of legislation relating to municipal financial management.

**MTREF** – Medium Term Revenue and Expenditure Framework. A medium term financial plan, usually 3 years, based on a fixed first year and indicative further two years budget allocations. Also includes details of the previous and current years 'financial position.

**Operating Expenditure** – Spending on the day to day expenses of the Municipality such as salaries and wages.

**SDBIP** – Service Delivery and Budget Implementation Plan. A detailed plan comprising quarterly performance targets and monthly budget estimates.

**Strategic Objectives** – The main priorities of the Municipality as set out in the IDP. Budgeted spending must contribute towards the achievement of the strategic objectives.

**Unauthorised expenditure** – Generally, spending without, or in excess of, an approved budget.

**Virement** – A transfer of budget.

**Virement Policy** - The policy that sets out the rules for budget transfers. Virements are normally allowed within a vote. Transfers between votes must be agreed by Council through an Adjustments Budget.

**Vote** – One of the main segments into which a budget is divided. In Hibiscus Coast Municipality this means at directorate level.

### **3. Executive Summary**

The application of sound financial management principles for the compilation of the Hibiscus Coast Municipality's Draft Budget is essential and critical to ensure that the municipality remains financially viable and that municipal services are provided sustainability, economically and equitably to all communities.

The Hibiscus Coast Municipality's business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low- to high-priority programmes so as to maintain sound financial stewardship. A critical review was also undertaken of expenditures on noncore and 'nice to have' items.

The municipality has embarked on implementing a range of revenue collection strategies to optimize the collection of debt owed by consumers. Furthermore, the municipality has undertaken various customer care initiatives to ensure the municipality truly involves all citizens in the process of ensuring a people lead government.

National Treasury's MFMA Circular No. 70 and 72 were used to guide the compilation of the 2014/15 MTREF which indicates the following amongst other things:

#### **3.1 MFMA Circulars**

National Treasury sent out MFMA Circular No. 66 on 11 December 2012 providing guidance to municipalities on their 2013/14 budgets and Medium Term Revenue and Expenditure Framework (MTREF). Circular 66 was followed up by Circular no.67 dated 12 March 2013. Circular No. 66 & 67 reminds us of the key focus areas for the 2013/2014 budget process, and that it must be read together with MFMA Circulars no. 48, 51, 54, 55, 58 and 59. It is essential reading material in order to understand the background to this budget.

National Treasury has also set out the requirements for funding the budget and producing a credible budget.

##### **3.1.1 Funding the Budget**

Section 18(1) of the MFMA states that an annual budget may only be funded from:

- Realistically anticipated revenues to be collected;
- Cash-backed accumulated funds from previous years' surpluses not Committed for other purposes; and
- Borrowed funds, but only for the capital budget referred to in section 17(2).

Achievement of this requirement in totality effectively means that a Council has 'balanced' its budget by ensuring that budgeted outflows will be offset by a combination of planned inflows.

Under old budget formats a 'balanced' income generated approach was a key objective and this assisted in ensuring that outflows were matched by inflows ,provided revenue collections were realistic. However, GRAP compliant budgets necessitate that budget 'balancing' be much more comprehensive.

New budgeting and accounting formats demand that the budgeted Statement of Financial Performance, the Budgeted Statement of Financial Position and the Budgeted Statement of Cash Flows must be considered simultaneously to ensure effective financial management and sustainability.

### 3.1.2 A Credible Budget

Amongst other things, a credible budget is a budget that:

- Funds only activities consistent with the revised IDP and vice versa ensuring The IDP is realistically achievable given the financial constraints of the municipality;
- Is achievable in terms of agreed service delivery and performance targets;
- Contains revenue and expenditure projections that are consistent with Current and past performance and supported by documented evidence of Future assumptions;
- Does not jeopardise the financial viability of the municipality (ensures that The financial position is maintained within generally accepted prudential limits And that obligations can be met in the short, medium and long term); and
- Provides managers with appropriate levels of delegation sufficient to meet Their financial management responsibilities.

A budget sets out certain service delivery levels and associated financial implications. Therefore the community should realistically expect to receive these promised service delivery levels and understand the associated financial implications. Major under spending due to under collection of revenue or poor planning is a clear example of a budget that is not credible and unrealistic.

Furthermore, budgets tabled for consultation at least 90 days prior to the start of the budget year should already be credible and fairly close to the final approved budget.

The main challenges experienced during the compilation of the Draft Budget 2014/15 MTREF can be summarized as follows:

- The ongoing difficulties in the national and local economy;
- Aging and poorly maintained roads and electricity infrastructure;
- The need to reprioritize projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- The increased cost and electricity (due to tariff increases from Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be point where services will no-longer be affordable;
- Wage increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies;

The following budget principles and guidelines directly informed the compilation of the 2014/15 Draft Budget:

- The 2013/14 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2014/15 annual budget;
- The Mid-Year Budget assessment 2013/2014 was also used as a guide for the compilation of the 2014/15 Draft Budget.
- Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
- The 2014 Division of Revenue Bill issued on 27 February 2014 and a revised that details the allocations that the municipality need to be reflected in the budget
- Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the

- cost of bulk electricity. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;
- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazette as required by the annual Division of Revenue Act;
  - The relevant policy developments in the different sectors proposals from the National Energy Regulator of South Africa (NERSA)).
  - The multi-year Salary and Wage Collective Agreement for the period 1 July 2012 to 30 June 2015. The agreement provides for a wage increase based on the average CPI for the period 1 February 2012 until 31 January 2013, plus 1.25 per cent for the 2014/15 financial year.
  - The upper limit was set for the following items and allocations to these items had to be supported by a list and/or motivation setting out the intention and cost of the expenditure which was used to priorities expenditures:
    - Special Projects;
    - Consultant Fees;
    - Furniture and office equipment;
    - Special Events;
    - Refreshments and entertainment;
    - Ad-hoc travelling; and
    - Subsistence, Travelling & Conference fees

In view of the aforementioned, the following table is a consolidated overview of the proposed 2014/15 Medium-term Revenue and Expenditure Framework:

#### 4. Table 1 Consolidated Overview

Description	Adjustment Budget 2013/14	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
Total Operating Revenue	598,262,272	705,028,743	747,330,467	792,170,295
Total Operating Expenditure	598,262,272	705,028,743	747,330,467	792,170,295
<i>Surplus(Deficit) for the year</i>	–	–	–	–
Capital Expenditure	129,138,255	101,031,497	107,093,387	113,518,990

Total operating revenue has grown by 17.84 per cent (R106 million) for the 2014/15 financial year when compared to the 2013/14 Adjustments Budget of R598 million. For the two outer years, operational revenue will increase by 6 per cent

Total operating expenditure for the 2014/15 financial year has been appropriated at R705 million and when compared to the 2013/14 Adjustments Budget, operational expenditure has grown by 17.84 per cent in the 2014/15 budget and by 6 for the respective outer years of the MTREF.

The capital budget of R101 million has been reduced by 21.76 per cent or R28 million for 2014/15 when compared to the 2013/14 Adjustment Budget.

The reason for the significant decrease in capital budget is that previously Housing project budget were part of the capital budget and through consultation with Provincial Treasury and the Auditor-General the municipality was advised to remove Housing budget from the capital budget as these houses are not the property of the municipality. The housing project budget has now been included as part of operating budget.

#### 5. Operating Revenue Framework

For Hibiscus Coast Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Growth in the municipality and continued economic development;
- Efficient revenue management, which aims to ensure a 100 per cent annual collection rate for property rates and other key service charges;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- The municipality's Property rates policy approved in terms of the Municipal property rates Act, 2004 (Act 6 of 2004) (MPRA);
- Increase ability to extend new services and recover costs;



- The municipality's Indigent policy and rendering of free basic services; and

The following table is a summary of the 2014/15 MTREF (classified by main revenue source):

**Table 2 Summary of revenue classified by main revenue source**

Description	2010/11	2011/12	2012/13	Current Year 2013/14				2014/15 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
<b>Revenue By Source</b>										
Property rates	220,641	241,467	264,332	289,374	289,374	289,374	289,374	309,630	328,207	347,900
Service charges - electricity revenue	66,129	81,126	88,494	93,383	93,383	93,383	93,383	99,049	104,992	111,291
Service charges - refuse revenue	31,071	33,311	33,497	49,331	49,331	49,331	49,331	52,905	56,079	59,444
Rental of facilities and equipment	2,325	2,308	1,778	2,414	2,414	2,414	2,414	2,880	3,053	3,236
Interest earned - external investments	9,632	8,266	6,718	5,525	5,525	5,525	5,525	5,856	6,207	6,580
Interest earned - outstanding debtors	7,068	6,610	8,986	9,488	9,488	9,488	9,488	10,057	10,660	11,300
Fines	1,419	1,265	3,662	9,904	9,904	9,904	9,904	11,862	12,573	13,328
Licences and permits	5,841	5,444	5,965	6,435	6,435	6,435	6,435	6,821	7,230	7,664
Agency services	3,214	3,734	3,920	3,960	4,300	4,300	4,300	4,558	4,831	5,121
Transfers recognised - operational	150,091	166,903	126,460	111,786	114,915	114,915	114,915	141,468	149,920	158,915
Other revenue	9,432	40,129	18,541	11,406	13,200	13,200	13,200	58,643	65,161	69,070
Gains on disposal of PPE	8,728	—	—	—	—	—	—	1,301	1,379	1,462
<b>Total Revenue</b>	<b>515,591</b>	<b>590,562</b>	<b>562,354</b>	<b>593,003</b>	<b>598,266</b>	<b>598,266</b>	<b>598,266</b>	<b>705,029</b>	<b>750,294</b>	<b>795,311</b>

**Table 3 Revenue source percentage of the total revenue**

Description	Current Year		2014/15 Medium Term Revenue & Expenditure					
	Adjusted Budget	%	Budget Year 2014/15	%	Budget Year+1 2015/16	%	Budget Year+2 2016/17	%
<b>Revenue By Source</b>								
Property rates	289,374	48.37	309,630	43.92	328,207	49.50	347,900	43.74
Service charges - electricity revenue	93,383	15.61	99,049	14.05	104,992	16.22	111,291	13.99
Service charges - refuse revenue	49,331	8.25	52,905	7.50	56,079	9.02	59,444	7.47
Rental of facilities and equipment	2,414	0.40	2,880	0.41	3,053	0.33	3,236	0.41
Interest earned - external investments	5,525	0.92	5,856	0.83	6,207	2.16	6,580	0.83
Interest earned - outstanding debtors	9,488	1.59	10,057	1.43	10,660	1.72	11,300	1.42
Fines	9,904	1.66	11,862	1.68	12,573	0.35	13,328	1.68
Licences and permits	6,435	1.08	6,821	0.97	7,230	1.83	7,664	0.96
Agency services	4,300	0.72	4,558	0.65	4,831	0.54	5,121	0.64
Transfers recognised - operational	114,915	19.21	141,468	20.07	149,920	14.96	158,915	19.98
Other revenue	13,200	2.21	58,643	8.32	65,161	3.36	69,071	8.68
Gains on disposal of PPE	—	—	1,301	0.18	1,379	0.18	1,462	0.18
<b>Total Revenue (excl capital transfers)</b>	<b>598,266</b>	<b>100.00</b>	<b>705,029</b>	<b>100.00</b>	<b>750,294</b>	<b>100.00</b>	<b>795,312</b>	<b>100.00</b>

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

Revenue generated from rates, services charges and transfers from grants forms a significant percentage of the revenue basket for the municipality. Rates, service charge revenues and grants operational comprise more than two thirds of the total revenue mix.

In the 2014/15 financial year, revenue from rates, services charges and grants operational totaled R603 million or 90 per cent. This growth can be mainly attributed to the increased share that the sale of electricity contributes to the total revenue mix, which in turn is due to rapid increases in the Eskom tariffs for bulk electricity.

Property rates are the first largest revenue source totaling 46 per cent or R309 million rand and increases to R328 million by 2015/16. The second and third largest sources is revenue from grants operational and electricity totaling 21 per cent or R141 million and 14.82 per cent or R99 million respectively.

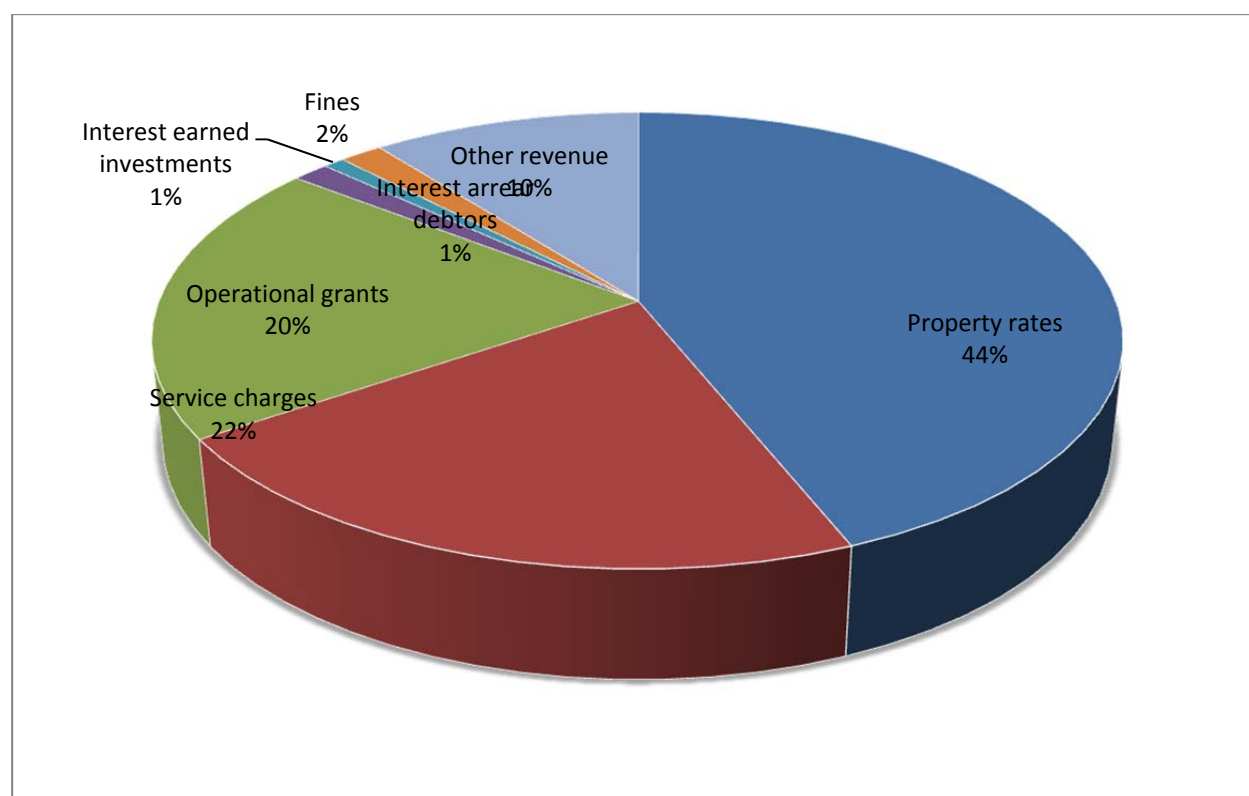
Other revenue' which consists of various items such as income received from permits and licenses, building plan fees, connection fees, transport fees and advertisement fees.

It must be noted that Housing projects budget has now been included as part of other revenue and general expenses as per explanation under table 1.

Operating grants and transfers totals R141 million in the 2014/15 financial year and steadily increases to R149 million by 2015/16. The following table gives a breakdown of the various operating grants and subsidies allocated to the municipality over the medium term:

The above table can be graphically presented as follows:

**Figure 1 Main sources of revenue**



**Table 4 Operating Transfers and Grant Receipts**

R thousand	Original Budget 2013/14	Adjusted Budget 2013/14	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
<b>RECEIPTS:</b>					
<b>Operating Transfers and Grants</b>					
<b>National Government:</b>	<b>95,040</b>	<b>95,040</b>	<b>105,940</b>	<b>112,296</b>	<b>119,034</b>
Local Government Equitable Share	92,600	92,600	103,406	109,610	116,187
Finance Management	1,550	1,550	1,600	1,696	1,798
Municipal Systems Improvement	890	890	934	990	1,049
<b>Provincial Government:</b>	<b>16,746</b>	<b>20,143</b>	<b>35,528</b>	<b>37,612</b>	<b>39,073</b>
KZN Arts and Culture(Libraries & Museums)	7,196	7,866	7,949	8,378	8,085
KZN Housing(Operational costs)	2,900	4,377	1,495	1,585	1,680
Cogta(Incl Municipal Excellence Awards)	5,000	6,000	—	—	—
Expanded Public Works Programme(EPWP)	1,000	1,000	1,084	1,149	1,218
Operational Support for Thusong Centres	500	500	—	—	—
Dept of Sport and Recreation	150	150	—	—	—
Women Golf Challenge	—	250	—	—	—
Intergrated public transport	—	—	10,000	10,600	11,236
Intermodal facility	—	—	15,000	15,900	16,854
<b>Total Operating Transfers and Grants</b>	<b>111,786</b>	<b>115,183</b>	<b>141,468</b>	<b>149,908</b>	<b>158,107</b>

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and the affordability of services were taken into account to ensure the financial sustainability of the municipality.

National Treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges as low as possible. Municipalities must justify in their budget documentation all increases in excess of the 6 per cent upper boundary of the South African Reserve Bank's inflation target. Excessive increases are likely to be counterproductive, resulting in higher levels of non-payment.

The percentage increases of Eskom bulk tariffs are far beyond the mentioned inflation target. Given that these tariff increases are determined by external agencies, the impact they have on the municipality's electricity and in these tariffs are largely outside the control of the municipality

It must also be appreciated that the consumer price index, as measured by CPI, is not a good measure of the cost increases of goods and services relevant to municipalities. The basket of goods and services utilized for the calculation of the CPI consist of items such as food, petrol and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases of electricity, petrol, diesel, chemicals, cement etc.

The current challenge facing the municipality is managing the gap between cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions.

### 5.1. Property Rates

National Treasury's MFMA Circular No. 58 and 59 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance. These regulations came into effect on 1 July 2009 and prescribe the rate ratio for the non-residential categories, public service infrastructure and agricultural

properties relative to residential properties. The implementation of these regulations was done in the previous budget process and the Property Rates Policy of the Municipality has been amended accordingly.

The following stipulations in the Property Rates Policy are highlighted:

- The first R15 000 of the market value of a property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA). In addition to this rebate, a further R85 000 and R50 000 reduction on the market value of a property for residential and vacant land categories respectively ,will be granted in terms of the municipality's own Property Rates Policy;
- 100 per cent rebate will be granted to registered indigents and child headed household in terms of the Indigent Policy;
- For pensioners, physically and mentally disabled persons whose household income equal 2 state pensions, 4 state pensions and 6 state pensions will receive a rebate of 75%, 50% and 25 % respectively in terms of Rates policy.
- Indigents, in terms of the indigent policy are exempt from paying rates if the value of the property is less than R320 000.00.

The categories of rate-able properties for purposes of levying rates the proposed rates increase for the 2014/15 financial year is 7 per cent.

**Table 5 Proposed rates increase for the 2014/15 financial year**

No	Description	Current Tariffs	Proposed Tariffs	Increase
		(Cents)	(Cents)	%
1	Residential	0.008103	0.008670	7
2	Commercial	0.016205	0.017339	7
3	Industrial	0.016205	0.017339	7
4	Mining	0.016205	0.017339	7
5	Agricultural - Bona Fide	0.000810	0.000867	7
6	Agricultural - Mixed Use	0.002026	0.002168	7
7	Institutional	0.004050	0.004334	7
8	Special Purposes	0.004050	0.004334	7
9	PSI	0.002026	0.002168	7
10	Vacant Land	0.016205	0.017339	7
11	ST-Garages/Storerooms	0.008103	0.008670	7
12	Communal Land	0.000810	0.000867	7
13	Guest Houses/Lodges	0.012201	0.013055	7

## 5.2. Sale of Electricity and Impact of Tariff Increases

Considering the Eskom increases, the consumer tariff had to be increased by 7.39 per cent to offset the additional bulk purchase cost from 1 July 2014. Furthermore, it should be noted that given the magnitude of the tariff increase, it is expected to depress growth in electricity consumption, which will have a negative impact on the municipality's revenue from electricity.

**Table 6 Proposed electricity tariffs increase**

Description	Current Tariffs	Proposed Tariffs(VAT Excl)	Change
	Cents	Cents	%
KWH Per Unit 0-50	0.7000	0.7400	5.50
KWH Per Unit 51-350	0.8700	0.9300	6.50
KWH Per Unit 351-600	1.0693	1.1500	7.39
KWH Per Unit 600 and more	1.1880	1.2800	7.39
Basic Charge	142.00	152.50	7.39
Service charge not exceeding 100kva	272.17	292.28	7.39
Maximum demand charge	46.20	49.61	7.39
Charge per kW(High):Peak	1.3731	1.4746	7.39
Standard	0.5761	0.6187	7.39
Off peak	0.3297	0.3541	7.39
Charge per kW(Low):Peak	0.9238	0.9921	7.39
Standard	0.5167	0.5549	7.39
Off peak	0.2966	0.3185	7.39

### 5.3. Waste Removal and Impact of Tariff Increases

Currently solid waste removal is operating at a deficit. It is widely accepted that the rendering of this service should at least break even, which is currently not the case. The municipality will have to implement a solid waste strategy to ensure that this service can be rendered in a sustainable manner over the medium to long-term. The main contributors to this deficit are maintenance on vehicles, increases in general expenditure such as petrol and diesel and the cost of remuneration. Considering the deficit, it is recommended that a comprehensive investigation into the cost structure of solid waste function be undertaken, and that this include investigating alternative service delivery models.

A 7 per cent increase in the waste removal tariff is proposed from 1 July 2014.

### 5.4. Other Tariff of Charges

Other tariff of charges such licenses and permits, town planning, fines and other revenue have been increased by 6 per cent.

It must be noted that the Town planning related tariffs were not increased in the 2013/14 financial year in order to promote economic development in the Hibiscus coast area.

## 6. Operating Expenditure Framework

The Municipality's expenditure framework for the 2014/15 budget and MTREF is informed by the following:

- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;

- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and

**Table 7 Summary of operating expenditure by standard classification item**

Description  R thousand	2010/11	2011/12	2012/13	Current Year 2013/14				2014/15 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
<b>Expenditure By Type</b>										
Employee related costs	218,859	233,883	249,130	265,522	265,231	265,231	265,231	274,900	291,394	308,877
Remuneration of councillors	14,613	15,701	16,417	17,708	17,708	17,708	17,708	17,582	18,817	19,946
Debt impairment	4,953	7,159	669	–	–	–	–	–	–	–
Depreciation & asset impairment	43,487	48,578	57,944	48,440	48,440	48,440	48,440	51,897	55,011	58,311
Finance charges	3,714	9,133	6,517	6,998	6,696	6,696	6,696	5,000	5,300	5,618
Bulk purchases	45,912	57,007	63,982	64,496	64,496	64,496	64,496	69,589	73,764	78,190
Other materials	25,565	26,306	37,265	38,244	38,672	38,672	38,672	54,733	58,017	61,498
Contracted services	18,369	23,196	24,982	26,365	28,390	28,390	28,390	30,738	32,582	34,538
Transfers and grants	6,967	5,785	8,529	4,036	4,036	4,036	4,036	4,660	4,384	4,647
Other expenditure	226,724	143,783	140,691	121,194	124,597	124,597	124,597	195,930	211,025	223,686
Loss on disposal of PPE	–	1,658	422	–	–	–	–	–	–	–
<b>Total Expenditure</b>	<b>609,163</b>	<b>572,189</b>	<b>606,549</b>	<b>593,003</b>	<b>598,266</b>	<b>598,266</b>	<b>598,266</b>	<b>705,029</b>	<b>750,294</b>	<b>795,312</b>

**Table 8 Expenditure by type percentage of the total expenditure**

Description  R thousand			2014/15 Medium Term Revenue & Expenditure					
	Adjusted Budget	%	Budget Year 2014/15	%	Budget Year +1 2015/16	%	Budget Year +2 2016/17	%
<b>Expenditure By Type</b>								
Employee related costs	265,231	44.33	274,900	38.99	291,394	38.84	308,878	38.84
Remuneration of councillors	17,708	2.96	17,582	2.49	18,817	2.51	19,946	2.51
Depreciation & asset impairment	48,440	8.10	51,897	7.36	55,011	7.33	58,311	7.33
Finance charges	6,696	1.12	5,000	0.71	5,300	0.71	5,618	0.71
Bulk purchases	64,496	10.78	69,589	9.87	73,764	9.83	78,190	9.83
Other materials	38,672	6.46	54,733	7.76	58,017	7.73	61,498	7.73
Contracted services	28,390	4.75	30,738	4.36	32,582	4.34	34,537	4.34
Transfers and grants	4,036	0.67	4,660	0.66	4,384	0.58	4,647	0.58
Other expenditure	124,597	20.83	195,930	27.79	211,025	28.13	223,686	28.13
<b>Total Expenditure</b>	<b>598,266</b>	<b>100</b>	<b>705,029</b>	<b>100</b>	<b>750,294</b>	<b>100</b>	<b>795,312</b>	<b>100.00</b>

**Table 9 Employee related costs details**

Description	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Pre-audit outcome	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
<b>R thousand</b>									
<b>Employee related costs</b>									
Basic Salaries and Wages	144,734	141,069	148,180	179,419	181,637	181,637	184,206	195,259	206,974
Pension and UIF Contributions	24,107	25,684	28,543	33,234	33,234	33,234	35,323	37,442	39,689
Medical Aid Contributions	6,807	7,710	9,806	12,458	12,458	12,458	13,205	13,998	14,838
Overtime	9,887	13,456	14,354	10,095	10,095	10,095	10,692	11,334	12,014
Performance Bonus	10,284	11,043	11,789	13,210	13,210	13,210	14,535	15,408	16,332
Motor Vehicle Allowance	6,543	7,554	7,010	7,770	7,770	7,770	8,195	8,687	9,208
Cellphone Allowance	1,254	1,451	1,679	495	495	495	534	566	600
Housing Allowances	633	870	748	1,220	1,220	1,220	1,495	1,585	1,680
Other benefits and allowances	8,902	20,010	21,987	7,620	5,112	5,112	6,713	5,876	6,229
Post-retirement benefit obligations	5,708	5,034	5,034						
	<b>218,859</b>	<b>233,883</b>	<b>249,130</b>	<b>265,522</b>	<b>265,231</b>	<b>265,231</b>	<b>274,900</b>	<b>290,154</b>	<b>307,563</b>
<b>Total Employee related costs</b>	<b>218,859</b>	<b>233,883</b>	<b>249,130</b>	<b>265,522</b>	<b>265,231</b>	<b>265,231</b>	<b>274,900</b>	<b>290,154</b>	<b>307,563</b>

The budgeted allocation for employee related costs for the 2014/15 financial year totals R274 million, which equals 41 per cent of the total operating expenditure. The salary increases have been factored into this budget at a percentage increase of 6.85 per cent for the 2014/15 financial year and also it must be noted that there are other line items within employee costs e.g. overtime, standby allowances, salaries temps, pension funds contributions which were not kept at 6.85 per cent increase as compared to basic salary increase.

The cost associated with the remuneration of councilors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the municipality's budget.

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Budget appropriations in this regard total R51.8 million for the 2014/15 financial and equates to 7.7 per cent of the total operating expenditure. Note that the implementation of GRAP 17 accounting standard has meant bringing a range of assets previously not included in the assets register onto the register. This has resulted in a significant increase in depreciation relative to previous years.

Finance charges consist primarily of the repayment of interest on long-term borrowing (Cost of capital). Finance charges make up 0.75 per cent (R5 million) of operating expenditure budget excluding annual redemption.

Bulk purchases are directly informed by the purchase of electricity from Eskom. The annual price increases have been factored into the budget appropriations and directly inform the revenue provisions. The increase is 8.06 per cent as per NERSA Guidelines.

Repairs and maintenance comprises of amongst others the purchase of fuel, diesel, materials for maintenance, potholes, cleaning materials and chemicals. This group of expenditure has been prioritized to ensure sustainability of the municipality's infrastructure



especially potholes. For 2014/15 the appropriation against this group of expenditure equals 8 per cent (R54.7 million)

Of the R54 million repairs and maintenance budget, R20 million relates to potholes and roads preventative maintenance .It must also be noted that roads rehabilitation amounting to R13 million been considered in the capital budget.

Contracted services equals 4.6 per cent of the expenditure budget and has been budgeted at R30 million. For the two outer years growth has been limited to 6 per cent.

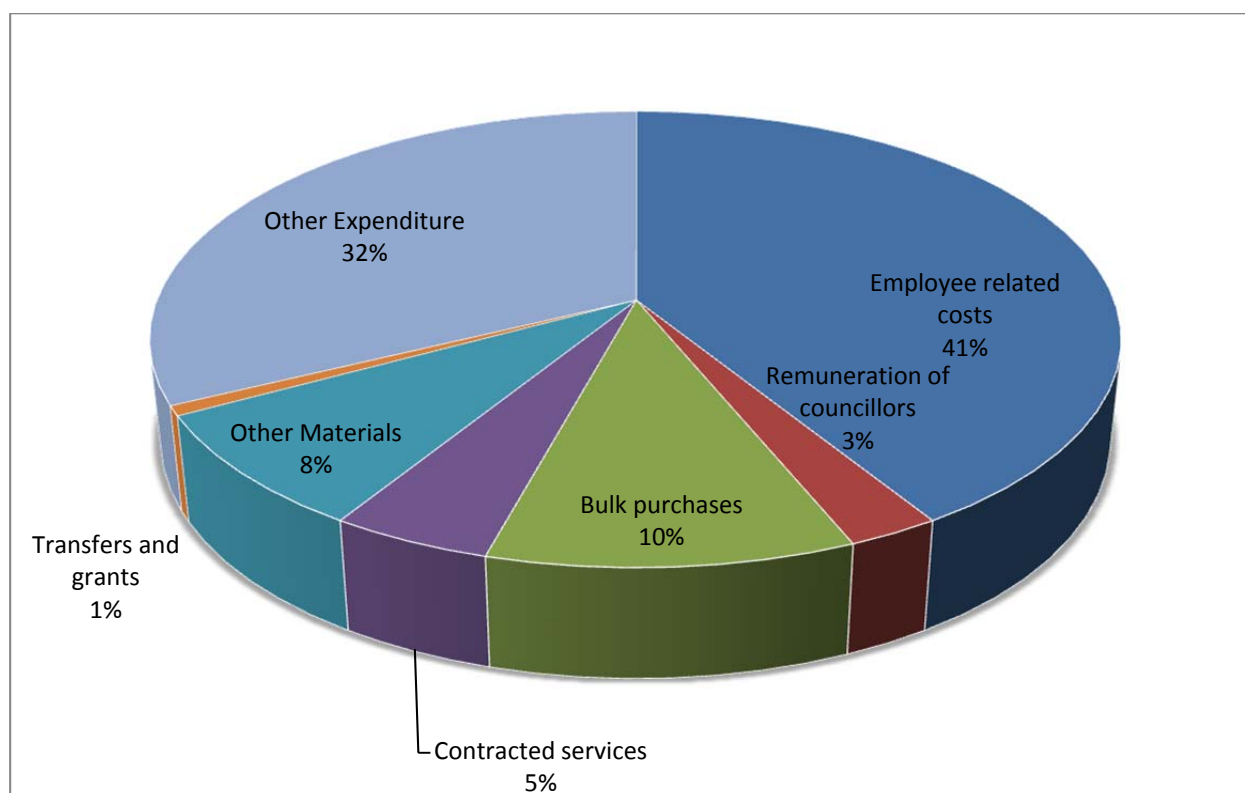
Other expenditure comprises of various line items relating to the daily operations of the municipality. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved. The salient features of general expenses have been the following:

- Special functions – R1.2 million
- Ugu Tourism R1.6 million
- Insurance all assets R2.3 million
- Indigent support R1.1 million
- Ward Secretaries Allowance –R1,9 million
- Back to School Campaign –R0.7 million
- Caucus Fees R0.3 million
- Youth Empowerment-R1.3 million
- Gender Empowerment- R0.5 million
- Children's rights R0.2 million
- Senior Citizen R0.2 million
- Disabled empowerment R0.2 million
- HIV initiative R0.1 million
- Local economic development R0.5 million
- Food for Waste R1.6 million
- EPWP-R1 million
- Staff health R0.1 million
- Meter audit R 0.7 million
- Grant to Hibiscus Coast Development Agency R1.6 million
- Rents and Leases R18 million
- Professional fees R6 million
- Electricity charges R 6 million
- Plant hire R3 million
- Free basic indigents R 3 million
- Rebates property rates R33 million
- Training and workshops R1.7 million
- Councilors training R0.4 million
- Productivity training R1.5 million
- Security monitoring charges R7 million
- Water charges R2.5 million
- Refuse site disposal charges R5 million
- Housing projects R37 million

The following table gives a breakdown of the main expenditure categories for the 2014/15 financial year.



**Figure 2 Main operational expenditure categories for the 2014/15 financial year**



### 6.1. Priority given to repairs and maintenance

During the compilation of the 2014/15 MTREF operational repairs and maintenance was identified as a strategic imperative owing to the aging of the municipality's infrastructure and historic deferred maintenance especially roads. To this end, repairs and maintenance was substantially increased from R38 to R54 million by R16 million.

And also an amount of R13 million for roads rehabilitation has been provided under capital budget.

### 6.2 Free Basic Services: Basic Social Service Package

The social package assists households that are poor or face circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the Municipality's Indigent Policy and the policy is reviewed annually. The cost of the social package of the registered indigent households is largely financed by national government through the local government equitable share received in terms of the annual Division of Revenue Act.

## 7. Capital Expenditure Framework

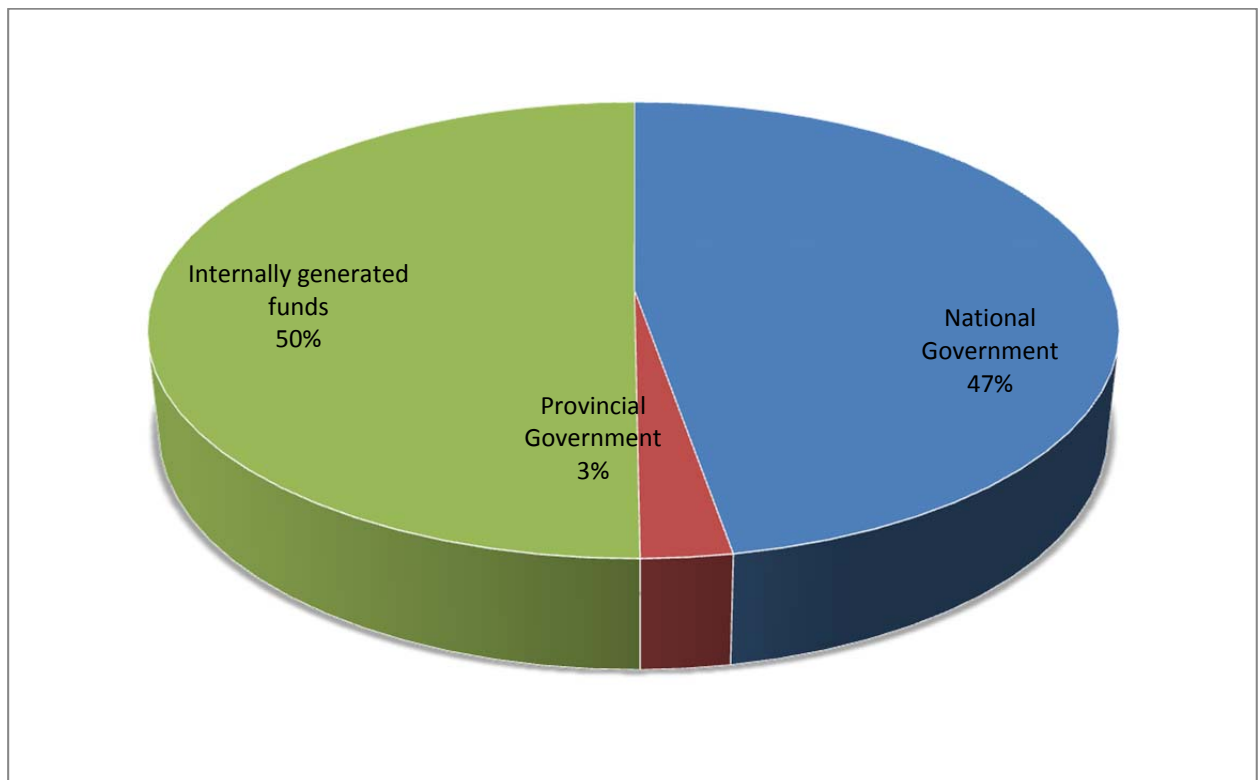
**Table 10 Capital expenditure by funding source**

Description  R thousand	2014/15 Medium Term Revenue & Expenditure Framework					
	Budget Year 2014/15	%	Budget Year +1 2015/16	%	Budget Year +2 2016/17	%
<b>Funded by:</b>						
National Government	47,759	47.27	50,624	50.50	53,662	50.50
Provincial Government	2,600	2.57	2,756	2.75	2,921	2.75
Internally generated funds	50,673	50.16	46,865	46.75	49,677	46.75
<b>Total Capital Funding</b>	<b>101,031</b>	<b>100.00</b>	<b>100,245</b>	<b>100.00</b>	<b>106,260</b>	<b>100.00</b>

The main source of funding of the 2014/15 Capital budget of R101 million is internally generated funds at R50.6 Million, followed by National government at R47 million and Provincial government at R2.6 million .

The above information can be graphically presented as follows:

**Figure 3 Funding sources of capital expenditure**



**Table 11 Breakdown of the funding sources**

Description R thousand	Budget Year
	2014/15
<b>Funded by:</b>	
Municipal Infrastructure Grant (MIG)	45,724
Department of Energy	2,034
Department of Corporate Governance(COGTA)	500
KZN Department of Sports and Recreation	2,100
Internally generated funds	50,672
<b>Total Capital Funding</b>	<b>101,031</b>

Some of the salient projects to be undertaken over the medium-term includes, amongst others:

- Refuse compactors – R 3 million
- Ward 23 Recreational rural node R1 million
- Electricity related projects R4.5 million
- Community halls R9.8 million
- Streetlights and traffic lights R3.2 million
- South broom and Margate tidal pools R0.9 million
- Roads and bridges R19.8 million
- Taxi ranks R2.8 million
- Sports fields R15.7 million
- Storm water R5.3 million
- Road rehabilitation R13.2 million
- Mini sub-station replacement R0.7 million
- Hibberdene transfer station civils R 0.5 million
- Hibberdene ablution facilities R0.5 million.
- Fire station roof replacement R0.4 million
- Batteries for sub – stations R0.2 million
- Staff depot ablution facilities R0.5 million
- Landfill site R0.5 million
- Port Shepstone town rejuvenation R 0.2 million
- Other capital projects R 2.7 million.
- Departmental capital R11.6 million
- Magede Mzobe Sportsfield R2.1 million

## **PART 2 ANNUAL BUDGET TABLES**

### **8. Annual Budget Tables**

The following are the main budget tables as required in terms of section 8 of the Municipal Budget and Reporting Regulations.

**Table 12 MBRR Table A1 - Budget Summary**

Description	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Pre-audit outcome	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
<b>R thousands</b>									
<b>Financial Performance</b>									
Property rates	220,641	241,467	264,332	289,374	289,374	289,374	309,630	328,207	347,900
Service charges	99,524	116,745	123,770	145,128	145,128	145,128	151,954	161,071	170,735
Investment revenue	7,068	6,610	8,986	9,488	9,488	9,488	5,856	6,207	6,580
Transfers recognised - operational	70,295	122,859	95,667	111,786	114,915	114,915	141,468	149,920	158,915
Other own revenue	38,266	58,837	38,806	37,228	39,362	39,362	96,121	104,889	111,181
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>435,795</b>	<b>546,518</b>	<b>531,561</b>	<b>593,003</b>	<b>598,266</b>	<b>598,266</b>	<b>705,029</b>	<b>750,294</b>	<b>795,311</b>
Employee costs	218,859	233,883	249,130	265,522	265,231	265,231	274,900	291,394	308,877
Remuneration of councillors	14,613	15,701	16,417	17,708	17,708	17,708	17,582	18,817	19,946
Depreciation & asset impairment	43,487	48,578	57,944	48,440	48,440	48,440	51,897	55,011	58,311
Finance charges	3,714	9,133	6,517	6,998	6,696	6,696	5,000	5,300	5,618
Materials and bulk purchases	71,477	83,313	101,247	102,740	103,168	103,168	124,322	131,781	139,688
Transfers and grants	6,967	5,785	8,529	4,036	4,036	4,036	4,660	4,384	4,647
Other expenditure	250,046	175,797	166,764	147,559	152,987	152,987	226,668	243,607	258,223
<b>Total Expenditure</b>	<b>609,163</b>	<b>572,189</b>	<b>606,549</b>	<b>593,003</b>	<b>598,266</b>	<b>598,266</b>	<b>705,029</b>	<b>750,294</b>	<b>795,311</b>
<b>Surplus/(Deficit)</b>	<b>(173,368)</b>	<b>(25,671)</b>	<b>(74,988)</b>	<b>0</b>	<b>(0)</b>	<b>(0)</b>	<b>0</b>	<b>0</b>	<b>0</b>
Transfers recognised - capital	79,796	44,044	30,787	–	–	–	–	–	–
Contributions recognised - capital & contrib	–	–	–	–	–	–	–	–	–
<b>Surplus/(Deficit) after capital transfers &amp; contributions</b>	<b>(93,572)</b>	<b>18,373</b>	<b>(44,195)</b>	<b>0</b>	<b>(0)</b>	<b>(0)</b>	<b>0</b>	<b>0</b>	<b>0</b>
Share of surplus/ (deficit) of associate	–	–	–	–	–	–	–	–	–
<b>Surplus/(Deficit) for the year</b>	<b>(93,572)</b>	<b>18,373</b>	<b>(44,195)</b>	<b>0</b>	<b>(0)</b>	<b>(0)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Capital expenditure &amp; funds sources</b>									
<b>Capital expenditure</b>	<b>54,578</b>	<b>74,931</b>	<b>53,656</b>	<b>139,521</b>	<b>129,138</b>	<b>129,138</b>	<b>101,031</b>	<b>107,093</b>	<b>113,518</b>
Transfers recognised - capital	23,872	29,322	31,766	94,360	84,448	84,448	50,358	53,380	56,582
Borrowing	20,416	–	4,521	–	–	–	–	–	–
Internally generated funds	10,289	45,609	17,370	45,161	44,690	44,690	50,673	53,713	56,936
<b>Total sources of capital funds</b>	<b>54,578</b>	<b>74,931</b>	<b>53,656</b>	<b>139,521</b>	<b>129,138</b>	<b>129,138</b>	<b>101,031</b>	<b>107,093</b>	<b>113,518</b>
<b>Financial position</b>									
Total current assets	<b>309,527</b>	281,217	275,272	269,465	269,465	269,465	290,412	307,777	326,183
Total non current assets	<b>812,768</b>	861,037	850,094	821,289	821,289	821,289	893,755	945,811	1,001,049
Total current liabilities	<b>184,411</b>	179,504	148,973	141,058	141,058	141,058	156,786	166,193	176,165
Total non current liabilities	<b>106,018</b>	105,858	106,765	79,122	79,122	79,122	97,491	96,119	94,264
Community wealth/Equity	<b>831,866</b>	<b>856,892</b>	<b>869,628</b>	<b>870,574</b>	<b>870,574</b>	<b>870,574</b>	<b>929,890</b>	<b>991,275</b>	<b>1,056,804</b>
<b>Cash flows</b>									
Net cash from (used) operating	21,328	34,584	32,100	108,867	51,108	51,108	96,933	161,759	171,030
Net cash from (used) investing	(58,913)	3,733	(52,729)	(129,845)	(87,600)	(87,600)	(95,980)	(101,739)	(107,843)
Net cash from (used) financing	48,802	(3,822)	(6,452)	(6,032)	(4,472)	(4,472)	(5,071)	(5,986)	(4,769)
<b>Cash/cash equivalents at the year end</b>	<b>11,217</b>	<b>34,494</b>	<b>(27,082)</b>	<b>(27,010)</b>	<b>(40,964)</b>	<b>(40,964)</b>	<b>(4,118)</b>	<b>54,034</b>	<b>58,418</b>
<b>Asset management</b>									
Depreciation & asset impairment	<b>43,487</b>	48,578	57,944	48,440	48,440	51,897	51,897	55,011	58,311

## Explanatory notes to MBRR Table A1 – Budget Summary

- Table A1 is a budget summary and provides a concise overview of the municipality's budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flow, and MFMA funding compliance).

- The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality's commitment to eliminating basic service delivery backlogs.

**Table 13 MBRR Table A2 - Budgeted Financial Performance (revenue and expenditure by standard classification)**

Description	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
<b>R thousand</b>									
<b>Revenue By Source</b>									
Property rates	220,524	241,359	263,953	289,374	289,374	289,374	309,630	328,207	347,900
Property rates - penalties & collection charges	117	108	379		–	–	–	–	–
Service charges - electricity revenue	66,129	81,126	88,494	93,383	93,383	93,383	99,049	104,992	111,291
Service charges - refuse revenue	31,071	33,311	33,497	49,331	49,331	49,331	52,905	56,079	59,444
Rental of facilities and equipment	2,325	2,308	1,778	2,414	2,414	2,414	2,880	3,053	3,236
Interest earned - external investments	9,632	8,266	6,718	5,525	5,525	5,525	5,856	6,207	6,580
Interest earned - outstanding debtors	7,068	6,610	8,986	9,488	9,488	9,488	10,057	10,660	11,300
Fines	1,419	1,265	3,662	9,904	9,904	9,904	11,862	12,573	13,328
Licences and permits	5,841	5,444	5,965	6,435	6,435	6,435	6,821	7,230	7,664
Agency services	3,214	3,734	3,920	3,960	4,300	4,300	4,558	4,831	5,121
Transfers recognised - operational	150,091	166,903	126,460	111,786	114,915	114,915	141,468	149,920	158,915
Other revenue	9,432	40,129	18,541	11,406	13,200	13,200	58,643	65,161	69,070
Gains on disposal of PPE	8,728	–	–	–	–	–	1,301	1,379	1,462
<b>Total Revenue</b>	<b>515,591</b>	<b>590,562</b>	<b>562,354</b>	<b>593,003</b>	<b>598,266</b>	<b>598,266</b>	<b>705,029</b>	<b>750,294</b>	<b>795,311</b>
<b>Expenditure By Type</b>									
Employee related costs	218,859	233,883	249,130	265,522	265,231	265,231	274,900	291,394	308,877
Remuneration of councillors	14,613	15,701	16,417	17,708	17,708	17,708	17,582	18,817	19,946
Debt impairment	4,953	7,159	669	–	–	–	–	–	–
Depreciation & asset impairment	43,487	48,578	57,944	48,440	48,440	48,440	51,897	55,011	58,311
Finance charges	3,714	9,133	6,517	6,998	6,696	6,696	5,000	5,300	5,618
Bulk purchases	45,912	57,007	63,982	64,496	64,496	64,496	69,589	73,764	78,190
Other materials	25,565	26,306	37,265	38,244	38,672	38,672	54,733	58,017	61,498
Contracted services	18,369	23,196	24,982	26,365	28,390	28,390	30,738	32,582	34,538
Transfers and grants	6,967	5,785	8,529	4,036	4,036	4,036	4,660	4,384	4,647
Other expenditure	226,724	143,783	140,691	121,194	124,597	124,597	195,930	211,025	223,686
Loss on disposal of PPE	–	1,658	422	–	–	–	–	–	–
<b>Total Expenditure</b>	<b>609,163</b>	<b>572,189</b>	<b>606,549</b>	<b>593,003</b>	<b>598,266</b>	<b>598,266</b>	<b>705,029</b>	<b>750,294</b>	<b>795,312</b>
<b>Surplus/(Deficit) for the year</b>	<b>(93,572)</b>	<b>18,373</b>	<b>(44,195)</b>	<b>0</b>	<b>(0)</b>	<b>(0)</b>	<b>0</b>	<b>0</b>	<b>0</b>

**Explanatory notes to MBRR Table A2 - Budgeted Financial Performance (revenue and expenditure by standard classification)**

- Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification. The modified GFS standard classification divides the municipal services into 15 functional areas. Municipal revenue, operating expenditure and capital expenditure are then classified in terms of each of these functional areas which enables the National Treasury to compile 'whole of government' reports.
- Note that as a general principle the revenues for the Trading Services should exceed their expenditures. The table highlights that this is the case for Electricity functions, but not the Waste management function. As already noted above, the municipality

will be undertaking a detailed study of this function to explore ways of improving efficiencies and provide a basis for re-evaluating the function's tariff structure.

- Other functions that show a deficit between revenue and expenditure are being financed from rates revenues and other revenue sources.

**Table 14 MBRR Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)**

Vote Description R thousand	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
<b>Revenue by Vote</b>									
Treasury	247,275	262,372	282,865	308,990	309,046	309,046	329,279	349,556	370,530
Corporate Services	2,009	4,385	4,200	3,844	3,844	3,844	5,936	6,292	6,670
Strategic Planning & Governance	150,064	175,461	114,159	93,400	93,400	93,400	104,306	110,564	117,198
Human Settlements & Infrastructure	69,658	81,558	84,535	93,383	93,383	93,383	146,854	155,665	165,004
Planning & Economic Development	4,051	2,626	4,619	17,828	19,819	19,819	29,187	30,938	32,795
Community Services	42,535	64,160	71,976	75,558	78,774	78,774	89,467	97,279	103,114
<b>Total Revenue by Vote</b>	<b>515,592</b>	<b>590,562</b>	<b>562,354</b>	<b>593,003</b>	<b>598,266</b>	<b>598,266</b>	<b>705,029</b>	<b>750,294</b>	<b>795,311</b>
<b>Expenditure by Vote</b>									
Treasury	34,834	38,925	43,343	49,732	49,129	49,129	45,814	49,083	52,028
Corporate Services	25,994	28,001	34,334	28,561	28,337	28,337	33,455	35,462	37,590
Strategic Planning & Governance	241,025	156,821	191,242	117,002	119,066	119,066	113,247	120,042	127,244
Human Settlements & Infrastructure	94,650	132,498	139,758	161,241	161,852	161,852	198,913	213,848	226,678
Planning & Economic Development	17,481	18,458	20,857	21,621	22,367	22,367	49,821	52,811	55,979
Community Services	195,180	197,486	177,016	214,846	217,515	217,515	263,779	279,048	295,792
<b>Total Expenditure by Vote</b>	<b>609,164</b>	<b>572,189</b>	<b>606,549</b>	<b>593,003</b>	<b>598,266</b>	<b>598,266</b>	<b>705,029</b>	<b>750,294</b>	<b>795,311</b>
<b>Surplus/(Deficit) for the year</b>	<b>(93,572)</b>	<b>18,373</b>	<b>(44,195)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0</b>	<b>(0)</b>

#### **Explanatory notes to MBRR Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)**

- Table A3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organisational structure of the municipality. This means it is possible to present the operating surplus or deficit of a vote. The following table is the analysis of the surplus or deficit for the electricity trading services.

**Table 15 MBRR Table A4 - Budgeted Financial Performance (revenue and expenditure)**

Description	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
<b>R thousand</b>									
<b>Revenue By Source</b>									
Property rates	220,524	241,359	263,953	289,374	289,374	289,374	309,630	328,207	347,900
Property rates - penalties & collection charges	117	108	379		-	-	-	-	-
Service charges - electricity revenue	66,129	81,126	88,494	93,383	93,383	93,383	99,049	104,992	111,291
Service charges - refuse revenue	31,071	33,311	33,497	49,331	49,331	49,331	52,905	56,079	59,444
Rental of facilities and equipment	2,325	2,308	1,778	2,414	2,414	2,414	2,880	3,053	3,236
Interest earned - external investments	9,632	8,266	6,718	5,525	5,525	5,525	5,856	6,207	6,580
Interest earned - outstanding debtors	7,068	6,610	8,986	9,488	9,488	9,488	10,057	10,660	11,300
Fines	1,419	1,265	3,662	9,904	9,904	9,904	11,862	12,573	13,328
Licences and permits	5,841	5,444	5,965	6,435	6,435	6,435	6,821	7,230	7,664
Agency services	3,214	3,734	3,920	3,960	4,300	4,300	4,558	4,831	5,121
Transfers recognised - operational	150,091	166,903	126,460	111,786	114,915	114,915	141,468	149,920	158,915
Other revenue	9,432	40,129	18,541	11,406	13,200	13,200	58,643	65,161	69,070
Gains on disposal of PPE	8,728	-	-	-	-	-	1,301	1,379	1,462
<b>Total Revenue</b>	<b>515,591</b>	<b>590,562</b>	<b>562,354</b>	<b>593,003</b>	<b>598,266</b>	<b>598,266</b>	<b>705,029</b>	<b>750,294</b>	<b>795,311</b>
<b>Expenditure By Type</b>									
Employee related costs	218,859	233,883	249,130	265,522	265,231	265,231	274,900	291,394	308,877
Remuneration of councillors	14,613	15,701	16,417	17,708	17,708	17,708	17,582	18,817	19,946
Debt impairment	4,953	7,159	669	-	-	-	-	-	-
Depreciation & asset impairment	43,487	48,578	57,944	48,440	48,440	48,440	51,897	55,011	58,311
Finance charges	3,714	9,133	6,517	6,998	6,696	6,696	5,000	5,300	5,618
Bulk purchases	45,912	57,007	63,982	64,496	64,496	64,496	69,589	73,764	78,190
Other materials	25,565	26,306	37,265	38,244	38,672	38,672	54,733	58,017	61,498
Contracted services	18,369	23,196	24,982	26,365	28,390	28,390	30,738	32,582	34,538
Transfers and grants	6,967	5,785	8,529	4,036	4,036	4,036	4,660	4,384	4,647
Other expenditure	226,724	143,783	140,691	121,194	124,597	124,597	195,930	211,025	223,686
Loss on disposal of PPE	-	1,658	422	-	-	-	-	-	-
<b>Total Expenditure</b>	<b>609,163</b>	<b>572,189</b>	<b>606,549</b>	<b>593,003</b>	<b>598,266</b>	<b>598,266</b>	<b>705,029</b>	<b>750,294</b>	<b>795,312</b>
<b>Surplus/(Deficit) for the year</b>	<b>(93,572)</b>	<b>18,373</b>	<b>(44,195)</b>	<b>0</b>	<b>(0)</b>	<b>(0)</b>	<b>0</b>	<b>0</b>	<b>0</b>

**Explanatory notes to Table A4 - Budgeted Financial Performance (revenue and expenditure)**

- Total revenue is R705 million in 2014/15 and escalates to R750 million by 2015/16. Revenue to be generated from property rates is R309 million (Including rebates) in the 2014/15 financial year and increases to R328 million by 2015/16. Property rates remains a significant funding source for the municipality. It remains relatively constant over the medium-term and tariff increases have been factored in at 6 per cent, for each of the respective financial years of the MTREF.
- Services charges relating to electricity and refuse removal constitutes the biggest component of the revenue basket of the municipality totalling R151 million for the 2014/15.
- Transfers recognised – operating includes the local government equitable share and other operating grants from national and provincial government. It needs to be noted that in real terms the grants receipts from national government are growing rapidly over the MTREF for the two outer years.
- Employee related costs and bulk purchases are the main cost drivers within the municipality and alternative operational gains and efficiencies will have to be identified to lessen the impact of wage and bulk tariff increases in future years.



**Table 16 MBRR Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding source**

Vote Description R thousand	2010/11	2011/12	2012/13	Current Year 2013/14				2014/15 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
<b>Capital Expenditure - Standard</b>										
<i><b>Governance and administration</b></i>	<b>26,477</b>	<b>39,623</b>	<b>50,935</b>	<b>41,023</b>	<b>47,617</b>	<b>47,617</b>	<b>47,617</b>	<b>22,430</b>	<b>23,776</b>	<b>25,202</b>
Executive and council	26,211	39,370	50,657	40,429	47,023	47,023	47,023	20,950	22,207	23,540
Budget and treasury office	181	202	256	339	339	339	339	424	449	476
Corporate services	85	51	23	255	255	255	255	1,056	1,119	1,187
<i><b>Community and public safety</b></i>	<b>2,785</b>	<b>35,160</b>	<b>1,324</b>	<b>67,777</b>	<b>50,836</b>	<b>50,836</b>	<b>50,836</b>	<b>50,284</b>	<b>53,301</b>	<b>56,499</b>
Community and social services	789	269	401	8,620	8,635	8,635	8,635	31,967	33,885	35,918
Sport and recreation	15	95	110	6,616	6,616	6,616	6,616	17,300	18,338	19,438
Public safety	1,633	47	557	1,178	1,178	1,178	1,178	1,017	1,078	1,143
Housing	285	34,744	255	51,363	34,407	34,407	34,407	—	—	—
Health	63	5	—	—	—	—	—	—	—	—
<i><b>Economic and environmental services</b></i>	<b>24,417</b>	<b>10</b>	<b>120</b>	<b>18,705</b>	<b>18,705</b>	<b>18,705</b>	<b>18,705</b>	<b>20,617</b>	<b>21,854</b>	<b>23,165</b>
Planning and development	229	10	109	679	679	679	679	817	866	918
Road transport	24,188	—	11	18,026	18,026	18,026	18,026	19,800	20,988	22,247
<i><b>Trading services</b></i>	<b>898</b>	<b>139</b>	<b>1,277</b>	<b>11,422</b>	<b>11,386</b>	<b>11,386</b>	<b>11,386</b>	<b>5,000</b>	<b>5,300</b>	<b>5,618</b>
Electricity	883	109	297	7,922	7,886	7,886	7,886	4,500	4,770	5,056
Waste management	15	30	981	3,500	3,500	3,500	3,500	500	530	562
<i><b>Other</b></i>	<b>—</b>	<b>—</b>	<b>—</b>	<b>594</b>	<b>594</b>	<b>594</b>	<b>594</b>	<b>2,700</b>	<b>2,862</b>	<b>3,034</b>
<b>Total Capital Expenditure - Standard</b>	<b>54,578</b>	<b>74,931</b>	<b>53,656</b>	<b>139,521</b>	<b>129,138</b>	<b>129,138</b>	<b>129,138</b>	<b>101,031</b>	<b>107,093</b>	<b>113,519</b>
<b>Funded by:</b>										
National Government	23,872	25,000	31,766	42,997	45,041	45,041	45,041	47,759	50,625	53,662
Provincial Government	—	4,322	—	51,363	39,407	39,407	39,407	2,600	2,756	2,921
<b>Transfers recognised - capital</b>	<b>23,872</b>	<b>29,322</b>	<b>31,766</b>	<b>94,360</b>	<b>84,448</b>	<b>84,448</b>	<b>84,448</b>	<b>50,359</b>	<b>53,381</b>	<b>56,583</b>
<b>Borrowing</b>	<b>20,416</b>	<b>—</b>	<b>4,521</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Internally generated funds</b>	<b>10,289</b>	<b>45,609</b>	<b>17,370</b>	<b>45,161</b>	<b>44,690</b>	<b>44,690</b>	<b>44,690</b>	<b>50,672</b>	<b>53,712</b>	<b>56,936</b>
<b>Total Capital Funding</b>	<b>54,578</b>	<b>74,931</b>	<b>53,656</b>	<b>139,521</b>	<b>129,138</b>	<b>129,138</b>	<b>129,138</b>	<b>101,031</b>	<b>107,093</b>	<b>113,519</b>

**Explanatory notes to Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding source**

- Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote (multi-year and single-year appropriations); capital expenditure by standard classification; and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.
- The MFMA provides that a municipality may approve multi-year or single-year capital budget appropriations.
- Single-year capital expenditure has been appropriated at R101 million for the 2014/15 financial year and remains relatively constant over the MTREF at levels of R107 million and R113 million respectively for the two outer years.
- Unlike multi-year capital appropriations, single-year appropriations relate to expenditure that will be incurred in the specific budget year such as the procurement of vehicles and specialized tools and equipment. The budget appropriations for the two outer years are indicative allocations based on the departmental business plans as informed by the IDP and will be reviewed on an annual basis to assess the relevance of the expenditure in relation to the strategic objectives and service delivery imperatives of the municipality. For the purpose of funding assessment of the MTREF, these appropriations have been included but no commitments will be incurred against single-year appropriations for the two outer-years.
- The capital programme is funded from capital and provincial grants and transfers and internally generated funds.



**Table 17 MBRR Table A6 - Budgeted Financial Position**

Description R thousand	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Pre-audit outcome	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
<b>ASSETS</b>									
<b>Current assets</b>									
Cash	142,712	177,206	8,579	8,500	8,500	8,500	9,050	9,593	10,169
Call investment deposits	65,000	–	141,545	151,798	151,798	151,798	149,330	158,290	167,787
Consumer debtors	92,839	95,545	113,078	99,698	99,698	99,698	119,298	126,456	134,043
Other debtors	5,013	4,711	8,376	5,289	5,289	5,289	8,836	9,366	9,928
Current portion of long-term receivables	1,673	1,189	949	1,765	1,765	1,765	1,001	1,001	1,001
Inventory	2,289	2,565	2,746	2,415	2,415	2,415	2,897	3,070	3,255
<b>Total current assets</b>	<b>309,527</b>	<b>281,217</b>	<b>275,272</b>	<b>269,465</b>	<b>269,465</b>	<b>269,465</b>	<b>290,412</b>	<b>307,777</b>	<b>326,183</b>
<b>Non current assets</b>									
Long-term receivables	12,040	11,340	10,809	12,702	12,702	12,702	9,500	8,500	7,500
Investment property	260,856	310,105	276,507	275,203	275,203	275,203	291,715	309,218	327,771
Property, plant and equipment	539,146	539,077	561,427	532,775	532,775	532,775	592,306	627,844	665,515
Intangible	680	468	223	560	560	560	235	249	264
Other non-current assets	47	47	1,129	49	49	49	–		
<b>Total non current assets</b>	<b>812,768</b>	<b>861,037</b>	<b>850,094</b>	<b>821,289</b>	<b>821,289</b>	<b>821,289</b>	<b>893,755</b>	<b>945,811</b>	<b>1,001,049</b>
<b>TOTAL ASSETS</b>	<b>1,122,295</b>	<b>1,142,253</b>	<b>1,125,366</b>	<b>1,090,754</b>	<b>1,090,754</b>	<b>1,090,754</b>	<b>1,184,167</b>	<b>1,253,587</b>	<b>1,327,232</b>
<b>LIABILITIES</b>									
<b>Current liabilities</b>									
Borrowing	8,398	6,194	5,318	8,860	8,860	8,860	5,230	5,544	5,876
Consumer deposits	15,373	16,760	18,037	16,219	16,219	16,219	19,029	20,170	21,380
Trade and other payables	131,392	125,244	98,745	87,500	87,500	87,500	104,176	110,427	117,052
Provisions	29,248	31,307	26,874	28,479	28,479	28,479	28,352	30,053	31,856
<b>Total current liabilities</b>	<b>184,411</b>	<b>179,504</b>	<b>148,973</b>	<b>141,058</b>	<b>141,058</b>	<b>141,058</b>	<b>156,786</b>	<b>166,193</b>	<b>176,165</b>
<b>Non current liabilities</b>									
Borrowing	58,841	54,499	47,646	62,077	62,077	62,077	35,120	30,006	24,184
Provisions	47,177	51,359	59,119	17,045	17,045	17,045	62,371	66,113	70,080
<b>Total non current liabilities</b>	<b>106,018</b>	<b>105,858</b>	<b>106,765</b>	<b>79,122</b>	<b>79,122</b>	<b>79,122</b>	<b>97,491</b>	<b>96,119</b>	<b>94,264</b>
<b>TOTAL LIABILITIES</b>	<b>290,429</b>	<b>285,362</b>	<b>255,738</b>	<b>220,180</b>	<b>220,180</b>	<b>220,180</b>	<b>254,277</b>	<b>262,312</b>	<b>270,429</b>
<b>NET ASSETS</b>	<b>831,866</b>	<b>856,892</b>	<b>869,628</b>	<b>870,574</b>	<b>870,574</b>	<b>870,574</b>	<b>929,890</b>	<b>991,275</b>	<b>1,056,804</b>
<b>COMMUNITY WEALTH/EQUITY</b>									
Accumulated Surplus/(Deficit)	423,692	454,243	474,202	473,427	473,427	473,427	539,963	606,848	677,877
Reserves	408,174	402,648	395,427	397,148	397,148	397,148	389,927	384,427	378,927
<b>TOTAL COMMUNITY WEALTH/EQUITY</b>	<b>831,866</b>	<b>856,892</b>	<b>869,629</b>	<b>870,575</b>	<b>870,575</b>	<b>870,575</b>	<b>929,890</b>	<b>991,275</b>	<b>1,056,804</b>

### Explanatory notes to Table A6 - Budgeted Financial Position

- Table A6 is consistent with international standards of good financial management practice, and improves understand ability for councillors and management of the impact of the budget on the statement of financial position (balance sheet).
- This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version which presents Assets less Liabilities as “accounting” Community Wealth. The order of items within each group illustrates items in order of liquidity; i.e. assets readily converted to cash, or liabilities immediately required to be met from cash, appear first.
- Call investments deposits;

- Consumer debtors;
- Property, plant and equipment;
- Trade and other payables;
- Provisions non -current;
- Changes in net assets; and
- Reserves

**Table 18 MBRR Table A7 – Cash Flow**

Description	2010/11	2011/12	2012/13	Current Year 2013/14			2014/15 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Pre-audit outcome	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
<b>R thousand</b>									
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>									
<b>Receipts</b>									
Ratepayers and other	354,809	376,814	364,804	449,267	451,401	451,401	515,168	546,078	578,842
Government - operating	72,618	120,059	95,667	170,149	114,915	114,915	114,468	121,336	128,616
Government - capital	77,473	36,076	30,787	40,173	40,173	40,173	47,759	50,625	53,662
Interest	16,701	14,876	15,704	14,682	14,682	14,682	15,913	16,868	17,880
<b>Payments</b>									
Suppliers and employees	(489,591)	(498,322)	(459,817)	(554,370)	(559,331)	(559,331)	(586,715)	(621,917)	(659,233)
Finance charges	(3,714)	(9,133)	(6,517)	(6,998)	(6,696)	(6,696)	(5,000)	(5,300)	(5,618)
Transfers and Grants	(6,967)	(5,785)	(8,529)	(4,036)	(4,036)	(4,036)	(4,660)	(4,940)	(5,236)
<b>NET CASH FROM/(USED) OPERATING ACTIVITIES</b>	<b>21,328</b>	<b>34,584</b>	<b>32,100</b>	<b>108,867</b>	<b>51,108</b>	<b>51,108</b>	<b>96,933</b>	<b>161,759</b>	<b>171,030</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>									
<b>Receipts</b>									
Proceeds on disposal of PPE		2,073	–				–	–	–
Decrease (Increase) in non-current debtors	686	1,184	976	1,500	1,500	1,500	950	1,007	1,067
Decrease (increase) other non-current receivables		–	–	1,200	1,200	1,200	1,250	1,325	1,405
Decrease (increase) in non-current investments	(5,000)	65,000		–	–	–	–	–	–
<b>Payments</b>									
Capital assets	(54,600)	(64,525)	(53,705)	(132,545)	(90,300)	(90,300)	(95,980)	(101,739)	(107,843)
<b>NET CASH FROM/(USED) INVESTING ACTIVITIES</b>	<b>(58,913)</b>	<b>3,733</b>	<b>(52,729)</b>	<b>(129,845)</b>	<b>(87,600)</b>	<b>(87,600)</b>	<b>(93,780)</b>	<b>(136,679)</b>	<b>(144,880)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>									
<b>Receipts</b>									
Borrowing long term/refinancing	55,000	–	–	–	–	–	–	–	–
Increase (decrease) in consumer deposits	1,109	2,724	1,277	846	846	846	1,100	1,166	1,236
<b>Payments</b>									
Repayment of borrowing	(7,307)	(6,546)	(7,729)	(6,878)	(5,318)	(5,318)	(6,171)	(6,541)	(6,933)
<b>NET CASH FROM/(USED) FINANCING ACTIVITIES</b>	<b>48,802</b>	<b>(3,822)</b>	<b>(6,452)</b>	<b>(6,032)</b>	<b>(4,472)</b>	<b>(4,472)</b>	<b>(5,071)</b>	<b>(5,986)</b>	<b>(4,769)</b>
<b>NET INCREASE/ (DECREASE) IN CASH HELD</b>	<b>11,217</b>	<b>34,494</b>	<b>(27,082)</b>	<b>(27,010)</b>	<b>(40,964)</b>	<b>(40,964)</b>	<b>(1,918)</b>	<b>19,094</b>	<b>21,381</b>
Cash/cash equivalents at the year begin:	131,494	142,711	177,296	143,627	201,262	201,262	160,298	169,916	180,111
Cash/cash equivalents at the year end:	142,711	177,205	150,215	116,617	160,298	160,298	158,380	189,010	201,492

## 9. Overview of the annual budget process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

### 9.1. Budget Process Overview

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2013) a time schedule that sets out the process to revise the IDP and prepare the budget.

The Mayor tabled in Council the required the IDP and budget time schedule on 27 August 2013. Key dates applicable to the process were:

- **August 2013**-Through the IDP review process, determines strategic objectives for service delivery and development for next three-year budgets including review of Provincial and National government sector strategic plans.
- **November 2013**-Mayor holds public hearing to identify the needs of the Community.
- **January 2014**-Submit the mid-year performance assessment report to the council not later than 25th January 2013.
- **February 2014**-The Manager Budget schedules meetings with HOD's to submit their operating budget proposals and departmental capital for inclusion in the draft budget.
- **March 2014**-Tabling in Council of the draft 2014/15 IDP and 2014/15 MTREF for public consultation.
- **April – 02 May 2014**-Public consultation
- **02 May 2013**- Closing date for written comments
- **03 to 20 May 2013**-Finalisation of the 2014/15 IDP and 2014/15 ,taking into account comments received from public, comments from National Treasury and updated information from the most recent Division of Revenue Bill and financial framework.
- **27 May 2014**-Tabling of the 2014/15 MTREF before Council for consideration and approval.

### 9.2. IDP and Service Delivery and Budget Implementation Plan

The Municipality's IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework is rolled out into objectives, key performance indicators and targets for implementation which directly inform the Service Delivery and Budget Implementation Plan. The Process Plan applicable to the fourth revision cycle included the following key IDP processes and deliverables:

- Compilation of departmental business plans including key performance indicators and targets;
- Financial planning and budgeting process;
- Public participation process and registration of community needs;
- Compilation of the SDBIP, and
- The review of the performance management and monitoring processes.

The IDP has been taken into a business and financial planning process leading up to the 2014/15 MTREF, based on the approved 2014/15 MTREF, Mid-year Review and adjustments budget. The business planning process has subsequently been refined in the light of current economic circumstances and the resulting revenue projections.

With the compilation of the 2014/15 MTREF, each department/function had to review the business planning process, including the setting of priorities and targets after reviewing the mid-year and third quarter performance against the 2013/14 Departmental Service Delivery and Budget Implementation Plan. Business planning links back to priority needs and master planning, and essentially informed the detail operating budget appropriations and three-year capital programme.

### **9.3. Financial Modelling and Key Planning Drivers**

As part of the compilation of the 2014/15 MTREF, extensive financial modelling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2014/15 MTREF:

- Municipality's growth
- Policy priorities and strategic objectives
- Asset maintenance
- Economic climate and trends (i.e. inflation, Eskom increases, household debt, migration patterns)
- Performance trends
- The approved 2013/14 adjustments budget and performance against the SDBIP
- Cash Flow Management Strategy
- Debtor payment levels
- Loan and investment possibilities
- The need for tariff increases versus the ability of the community to pay for services;
- Improved and sustainable service delivery

In addition to the above, the strategic guidance given in National Treasury's MFMA Circulars 70 and 72 has been taken into consideration in the planning and prioritisation process.

### **9.4. Community Consultation**

The draft 2014/15 MTREF as tabled before Council on 25 March 2014 and on 03 April 2014 it was published on the municipality's website for public consultation, and hard copies were made available at customer care offices, municipal notice boards and various libraries.

The opportunity to give electronic feedback was also communicated on the Municipality website.

All documents in the appropriate format (electronic and printed) were provided to National Treasury, and other national and provincial departments in accordance with section 23 of the MFMA, to provide an opportunity for them to make inputs.

The applicable dates and venues were published in all the local newspapers and on average attendance were recorded per meeting. This is up on the previous year's process. This can be attributed to the additional initiatives that were launched during the consultation process, including the specific targeting of ratepayer associations. Individual sessions were scheduled with organised business and imbizo's were held to further ensure transparency and interaction.

Submissions received during the community consultation process and additional information regarding revenue and expenditure and individual capital projects were addressed, and where relevant considered as part of the finalisation of the 2014/15 MTREF.

Feedback responses to the submissions received are available on request. The following are some of the issues and concerns raised as well as comments received during the consultation process.

- Several complaints were received regarding poor service delivery, especially waste removal backlogs and the state of road infrastructure;
  - Poor performance of contractors relating to infrastructure development and maintenance especially in the areas of road construction and maintenance were raised;
  - Capital expenditure is not allocated to the areas in the same ratio as the income derived from those areas. This is a normal practice in a collective taxation environment. The Municipality is responsible for managing the equitable use of resources to ensure that constitutional imperative to progressively improve basic services in undeveloped areas is realized in a sustainable manner over a reasonable period of time;
  - Packages of council officials were criticized as being very high,
  - The affordability of tariff increases, especially electricity, was raised on numerous occasions. This concern was also raised by organized business as an obstacle to economic growth;
  - Pensioners cannot afford the tariff increases due to low annual pension increases;
- and
- During the community consultation process large sections of the community made it clear that they are not in favour of any further tariff increases to fund additional budget requests. They indicated that the municipality must do more to ensure efficiencies and value for money.

The following submissions were received from KZN South Coast and Ratepayers Association

#### **PENSIONERS REBATE: APPLICATION TO HAVE PENSIONER, S RATES REBATE POLICY AMENDED**

- 1 Further to our meeting with the Municipal Manager and Corp Manco on 10 March 2014  
Where the issue relating to pensioner's rates rebates were discussed I forward herewith  
The request of suitable amendments to the rates rebate scheme as follows:  
CLAUSE 11.3.19 THE VATUATION CEITING

A commensurate increase in the ceiling of the rates payable should be considered as the rates payable increase every year. Pensioners who were unable to claim a rebate due to the introduction of this restrictive ceiling are required to pay the annual increased rates, without the actual valuation ceiling being raised in relation to these increases. This  
Prevents pensioners who may well qualify as per the means test to ever be able to reapply.

An alternative would be for council to consider removing this clause completely and simply apply the means test as:'

- Most people who apply for a rebate only do so because they find themselves with less disposable income for a variety of reasons and cannot afford to pay the full rates required.
- It may be that they are on a fixed income, have been retrenched, experienced a failed business venture, or just have no pension at all and so find it hard to meet all their monthly obligations.

One cannot always assume that because a house is above a certain value that the commensurate income.

Many find themselves in properties that have risen in value over time but the monetary value of their income has declined. They are also unable to sell even if they wished to do so, due to the current economic climate - so they are really stuck between a rock & a hard place.

- It is quite easy when one is sitting in a position of comfort, either with a handsome monthly salary or a comfortable pension, to forget and ignore the pain of not having much money at ones disposal.
- We would like to see the council rescind this punitive clause and rather apply the "means test" as they have done in the past. This is quite comprehensive, what with Bank account details, utilities bill, SARS Clearance certificates etc. that need to be Provided in order to determine if & at what level of rebate, relief will be given to Each individual who makes this application.
- Thus the value of a property should NOT be the main criteria applied in determining A rebate for pensioners but the amount of income on which they live should be the Chief criteria when assessing whether they are eligible for a rebate or not.

#### **Clause 11.3.4 Not renting out of any property or using the property for gain.**

Why should a pensioner who has a limited income not be able to try and earn some extra? Money to help make ends meet? Why a widowed pensioner should not be allowed to take In lodgers or a retired person make furniture (as a hobby) which he then sells or a couple rent out their granny flat at Christmas, all just to earn some money to help pay the bills. This clause also overlooks the total inability of the Municipality to monitor any earnings of this nature.

#### **The means test will take care of this.**

Clause 11.3.3 "not own any other property, nor the spouse own any other property.,, We suggest that this clause be amended to read:

1. "He/she must be the owner or "deemed owner" of the primary property. This includes co-owners who are married to each other or property owned solely by either spouse.
2. He/she must reside permanently on the primary property. If the owner has more than one primary property, the rebate will be granted ONLY on one property

Many people (especially those who were self-employed) and who did not have access to a Pension/provident fund provided for by their companies, bought property as an investment tool, so as to be able to live off the income in their later years. Thus these people too, should

not be penalised for now having additional property; as only the primary residence will be eligible for the rebate.

**The means test will take care of this too.**

2. In summary, the Association believes that, in contradiction to the Council's stated policy, the elderly are being unfairly discriminated against and urge that the Council adopts the changes suggested above.

## **CHAIRMAN**

The following are the changes effected in the final 2014/15 MTREF compared to the draft 2014/15 MTREF that was tabled for community consultation, include:

- Road rehabilitation – Tarred and Gravel R 4.8 and R6.4 million respectively
- Section 57 Performance bonus R1 million has been included
- High mast has been allocated R1 million
- Recreational node has been changed to Ward 23 Community hall ( No change in the budget)
- Reallocation of potholes and preventative maintenance R12 and R8 million respectively
- By- laws and matric intervention have been removed
- Special functions R1.2 million ( R1 million : Draft Budget)
- Poverty alleviation projects R 1 million
- Local economic development R5 million
- Customer care R1.1 million
- Port Shepstone peace monument R0.1 million ( new)
- Donations of furniture to all community halls R0.3 million ( New)
- Cluster 6 Low level bridge has been changed to Mangulubeni ( No change in the budget amount)
- Staff productivity has been reduced to R1.5 million ( R2 million : Draft Budget)
- Special functions has been increased to R1.2 million ( R1.1 million : Draft Budget)
- Local economic development has been reduced to R0.5 million ( R1 million : Draft Budget)
- The changes in property rates by laws are attached as part of the documentation for approval by Council.

## **10. Overview of Alignment of annual budget with IDP**

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realized through a credible integrated developmental planning process.

Municipalities in South Africa need to utilise integrated development planning as a method to plan future development in their areas and so find the best solutions to achieve sound long-term development goals. A municipal IDP provides a five year strategic programme of action aimed at setting short, medium and long term strategic and budget priorities to create a development platform, which correlates with the term of office of the political incumbents. The plan aligns the resources and the capacity of a municipality to its overall development aims and guides the municipal budget. An IDP is therefore a key instrument which municipalities use to provide vision, leadership and direction to all those that have a role to

play in the development of a municipal area. The IDP enables municipalities to make the best use of scarce resources and speed up service delivery.

Integrated developmental planning in the South African context is amongst others, an approach to planning aimed at involving the municipality and the community to jointly find the best solutions towards sustainable development. Furthermore, integrated development planning provides a strategic environment for managing and guiding all planning, development and decision making in the municipality.

It is important that the IDP developed by municipalities correlate with National and Provincial intent. It must aim to co-ordinate the work of local and other spheres of government in a coherent plan to improve the quality of life for all the people living in that area. Applied to the Municipality, issues of national and provincial importance should be reflected in the IDP of the municipality. A clear understanding of such intent is therefore imperative to ensure that the Municipality strategically complies with the key national and provincial priorities.

The aim of this revision cycle was to develop and coordinate a coherent plan to improve the quality of life for all the people living in the area, also reflecting issues of national and provincial importance. One of the key objectives is therefore to ensure that there exists alignment between national and provincial priorities, policies and strategies and the Municipality's response to these requirements.

The national and provincial priorities, policies and strategies of importance include amongst others:

- Green Paper on National Strategic Planning of 2009;
- Government Programme of Action;
- Development Facilitation Act of 1995;
- Provincial Growth and Development Strategy (GGDS);
- National and Provincial spatial development perspectives;
- Relevant sector plans such as transportation, legislation and policy;
- National Key Performance Indicators (NKPIs);
- National Development Plan;
- National 2014 Vision;
- National Spatial Development Perspective (NSDP) and
- The National Priority Outcomes.

The Constitution requires local government to relate its management, budgeting and planning functions to its objectives. This gives a clear indication of the intended purposes of municipal integrated development planning. Legislation stipulates clearly that a municipality must not only give effect to its IDP, but must also conduct its affairs in a manner which is consistent with its IDP.

The following table highlights the IDP's five strategic objectives for the 2014/15 MTREF and further planning refinements that have directly informed the compilation of the budget:

**Table 19 IDP Strategic Objectives**

<b>2014/2015 Financial Year</b>	<b>2014/2015 MTREF</b>
1.The provision of quality basic services and infrastructure	1.Provision of quality basic services and infrastructure



2. Municipal financial viability and management.	2.1. Implementing revenue enhancement strategy. 2.2. Uphold treasury norms and standards in terms of budgeting and reporting. 2.3. Manage municipal expenditure.
3. Local economic development and social development	3. Economic growth and development that leads to sustainable job creation
4. Good governance and public participation.	4.1. Promote culture of participatory democracy and social cohesion. 4.2. To promote and uphold principle of good governance. 4.3 Implementation of effective Organisational Performance Management System(OPMS)
5. Spatial and environmental	5. Implementation of the Spatial Development Framework.

In order to ensure integrated and focused service delivery between all spheres of government it was important for the Municipality to align its budget priorities with that of national and provincial government. All spheres of government place a high priority on infrastructure development, economic development and job creation, efficient service delivery, poverty alleviation and building sound institutional arrangements.

Local priorities were identified as part of the IDP review process which is directly aligned to that of the national and provincial priorities. The key performance areas can be summarised as follows against the five strategic objectives:

1. Provision of quality basic services and infrastructure which includes, amongst others:

- Provide electricity;
- Provide waste removal;
- Provide housing;
- Provide roads and storm water;
- maintaining the infrastructure of the Municipality.

2. Economic growth and development that leads to sustainable job creation by:

- Ensuring there is a clear structural plan for the municipality;
- Ensuring planning processes function in accordance with set timeframes;
- Facilitating the use of labour intensive approaches in the delivery of services and the building of infrastructure.

3.1 Fight poverty and build clean, healthy, safe and sustainable communities:

- Effective implementation of the Indigent
- Working with the provincial department of health to provide primary health care services;
- Extending waste removal services and ensuring effective municipality cleansing;
- Working with strategic partners such as SAPS to address crime;
- Ensuring safe working environments by effective enforcement of building and health regulations;
- Promote viable, sustainable communities through proper zoning; and
- Promote environmental sustainability by protecting wetlands and key open

spaces.

3.2 Integrated Social Services for empowered and sustainable communities

- Work with provincial departments to ensure the development of community infrastructure such as schools and clinics is properly co-ordinated with the informal settlements upgrade programme

4. Foster participatory democracy and Batho Pele principles through a caring, accessible and accountable service by:

- Optimising effective community participation in the ward committee system; and
- Implementing Batho Pele in the revenue management strategy.

5.1 Promote sound governance through:

- Publishing the outcomes of all tender processes on the municipal website

5.2 Ensure financial sustainability through:

- Reviewing the use of contracted services
- Continuing to implement the infrastructure renewal strategy and the repairs and maintenance plan

5.3 Optimal institutional transformation to ensure capacity to achieve set objectives

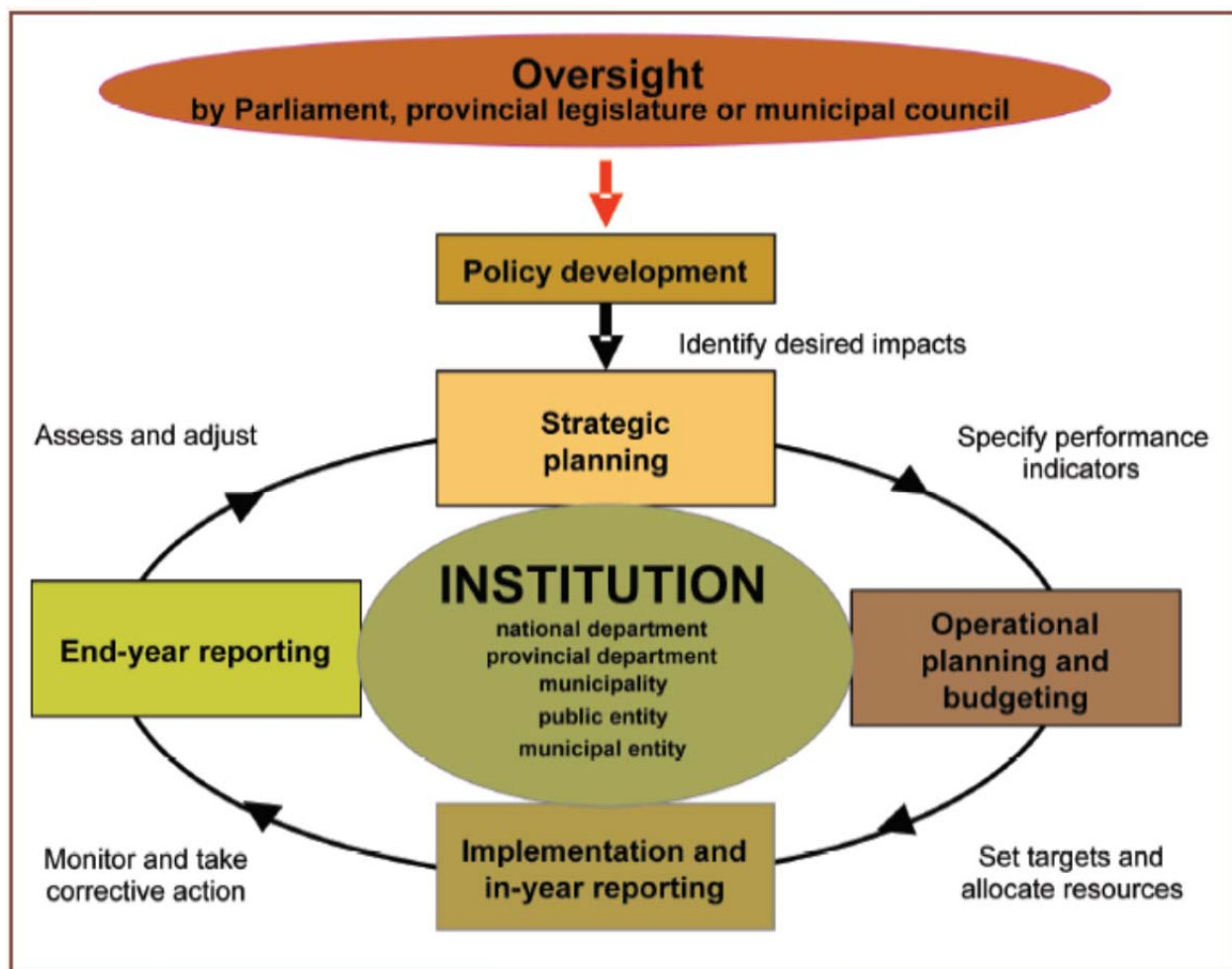
- Review of the organizational structure to optimize the use of personnel;

The 2014/15 MTREF has therefore been directly informed by the IDP revision process and the following tables provide a reconciliation between the IDP strategic objectives and operating revenue, operating expenditure and capital expenditure.

## **10.1 Measurable performance objectives and indicators**

Performance Management is a system intended to manage and monitor service delivery progress against the identified strategic objectives and priorities. In accordance with legislative requirements and good business practices as informed by the National Framework for Managing Programme Performance Information, the Municipality has developed and implemented a performance management system of which system is constantly refined as the integrated planning process unfolds. The Municipality targets, monitors, assess and reviews organisational performance which in turn is directly linked to individual employee's performance.

At any given time within government, information from multiple years is being considered; plans and budgets for next year; implementation for the current year; and reporting on last year's performance. Although performance information is reported publicly during the last stage, the performance information process begins when policies are being developed, and continues through each of the planning, budgeting, implementation and reporting stages. The planning, budgeting and reporting cycle can be graphically illustrated as follows:

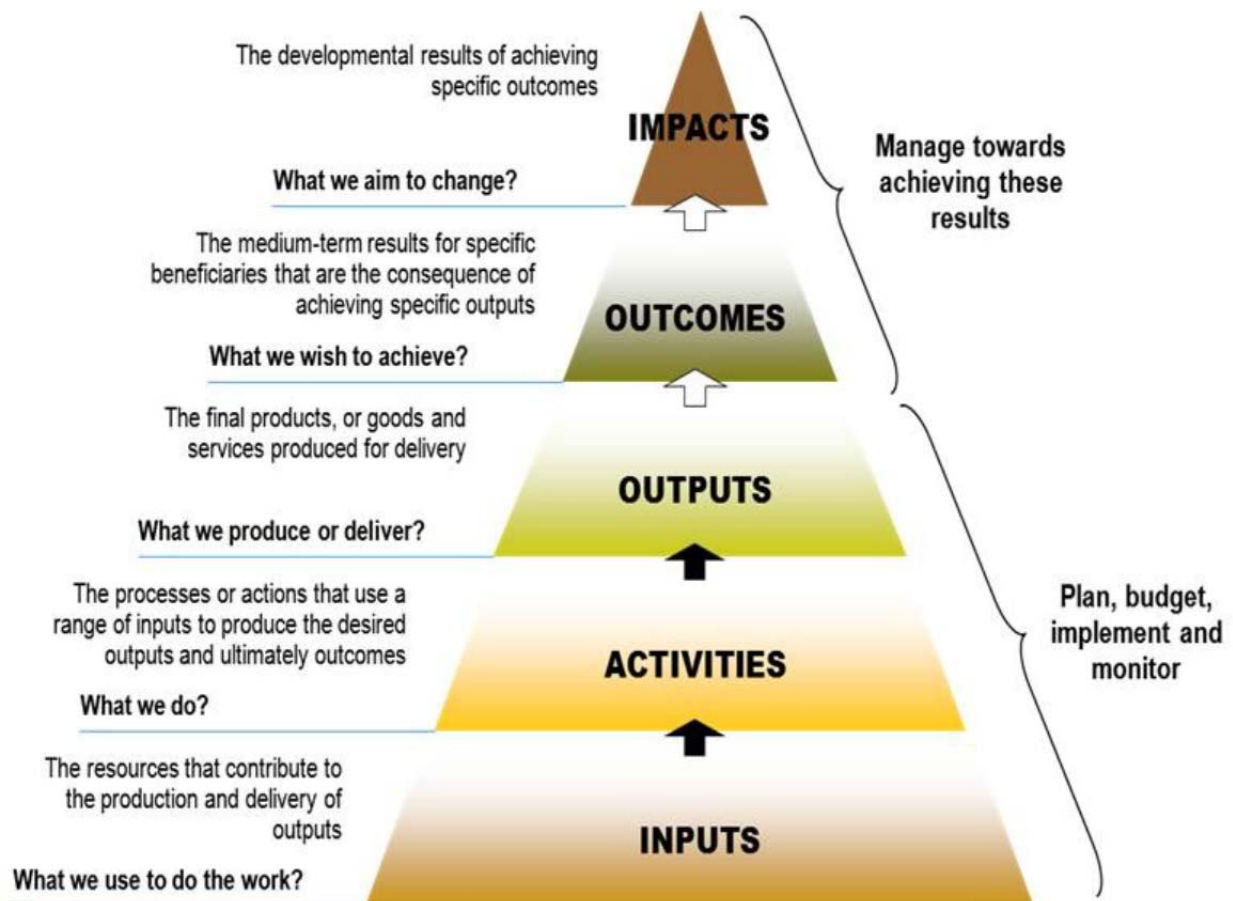


**Figure 5 Planning, budgeting and reporting cycle**

The performance of the Municipality relates directly to the extent to which it has achieved success in realising its goals and objectives, complied with legislative requirements and meeting stakeholder expectations. The Municipality therefore has adopted one integrated performance management system which encompasses:

- Planning (setting goals, objectives, targets and benchmarks);
  - Monitoring (regular monitoring and checking on the progress against plan);
  - Measurement (indicators of success);
  - Review (identifying areas requiring change and improvement);
  - Reporting (what information, to whom, from whom, how often and for what purpose);
- and
- Improvement (making changes where necessary).

The performance information concepts used by the Municipality in its integrated performance management system are aligned to the **Framework of Managing Programme Performance Information** issued by the National Treasury:



## 11. Overview of budget related-policies

The Municipality's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

### 11.1. Review of credit control and debt collection procedures/policies

The Collection Policy as approved by Council has been reviewed and adopted. While the adopted policy is credible, sustainable, manageable and informed by affordability and value for money there has been a need to review certain components to achieve a higher collection rate.

The 2014/15 MTREF has been prepared on the basis of achieving an average debtors' collection rate of 95 per cent on current billings. In addition the collection of debt in excess of 90 days has been prioritised as a pertinent strategy in increasing the municipality's cash levels. In addition, the potential of a payment incentive scheme is being investigated and if found to be viable will be incorporated into the policy.

### 11.2. Budget and Virement Policy

The Budget and Virement Policy aims to empower senior managers with an efficient financial and budgetary amendment and control system to ensure optimum service delivery within the legislative framework of the MFMA and the municipality's system of delegations.

The Budget and Virement Policy was approved by Council in May 2013 and in there are no changes from the previous year.

Also covered under budget policy process is the adjustment budget that is governed by various provisions in the MFMA and is aimed at instilling and establishing an increased level of discipline, responsibility and accountability in the financial management practices of municipalities. To ensure that the municipality continues to deliver on its core mandate and achieves its developmental goals, the mid-year review and adjustment budget process will be utilised to ensure that underperforming functions are identified and funds redirected to performing functions.

There are no changes from last year's budget policy.

### **11.3. Tariff Policies**

The Municipality's tariff policies provide a broad framework within which the Council can determine fair, transparent and affordable charges that also promote sustainable service delivery. The policies have been approved on various dates and a consolidated tariff policy is envisaged to be compiled for ease of administration and implementation of the next two years.

There are no changes from last year's budget policy

## **12. Overview of budget assumptions**

### **12.1. External factors**

Owing to the economic slowdown, financial resources are limited due to reduced payment levels by consumers. This has resulted in declining cash inflows, which has necessitated restrained expenditure to ensure that cash outflows remain within the affordability parameters of the municipality's finances.

### **12.2. General inflation outlook and its impact on the municipal activities**

There are five key factors that have been taken into consideration in the compilation of the 2014/15 MTREF:

- National Government macro-economic targets;
- The general inflationary outlook and the impact on Municipality's residents and businesses;
- The impact of municipal cost drivers;
- The increase in prices for bulk electricity and
- The increase in the cost of remuneration. Employee related costs comprise 39 per cent of total operating expenditure in the 2014/15 MTREF and therefore this increase above inflation places a disproportionate upward pressure on the expenditure budget. The wage agreement SALGBC concluded with the municipal workers unions on 31 July 2009 as well as the categorization and job evaluation wage curves collective agreement signed on 21 April 2010 must be noted.

### **12.3. Collection rate for revenue services**

The base assumption is that tariff and rating increases will increase at a rate slightly higher than CPI over the long term. It is also assumed that current economic conditions, and relatively controlled inflationary conditions, will continue for the forecasted term.

The rate of revenue collection is currently expressed as a percentage (95 per cent) of annual billings. Cash flow is assumed to be 95 per cent of billings, plus an increased collection of arrear debt from the revised collection and credit control policy. The performance of arrear collections will however only be considered a source of additional cash in-flow once the performance has been carefully monitored.

### **12.4. Growth or decline in tax base of the municipality**

Debtor's revenue is assumed to increase at a rate that is influenced by the consumer debtor's collection rate, tariff/rate pricing, real growth rate of the municipality, household formation growth rate and the poor household change rate.

Household formation is the key factor in measuring municipal revenue and expenditure growth, as servicing 'households' is a greater municipal service factor than servicing individuals. Household formation rates are assumed to convert to household dwellings. In addition the change in the number of poor households influences the net revenue benefit derived from household formation growth, as it assumes that the same costs incurred for servicing the household exist, but that no consumer revenue is derived as the 'poor household' limits consumption to the level of free basic services.

### **12.5. Impact of national, provincial and local policies**

Integration of service delivery between national, provincial and local government is critical to ensure focussed service delivery and in this regard various measures were implemented to align IDPs, provincial and national strategies around priority spatial interventions. In this regard, the following national priorities form the basis of all integration initiatives:

- Creating jobs;
- Enhancing education and skill development;
- Improving Health services;
- Rural development and agriculture; and
- Fighting crime and corruption.

To achieve these priorities integration mechanisms are in place to ensure integrated planning and execution of various development programs. The focus will be to strengthen the link between policy priorities and expenditure thereby ensuring the achievement of the national, provincial and local objectives.

### **13. Legislation and compliance status**

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

1. In year reporting  
Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Executive Mayor (within 10 working days) has progressively improved and includes monthly published financial performance on the municipality's website.
2. Internship programme  
The municipality is participating in the Municipal Financial Management Internship programme and has employed five interns undergoing training in various divisions of the Financial Services Department. There are seven interns currently.
3. Budget and Treasury Office  
The Budget and Treasury Office has been established in accordance with the MFMA.
4. Audit Committee  
An Audit Committee has been established and is fully functional.
5. Service Delivery and Implementation Plan  
The detail SDBIP document is at a draft stage and will be finalized after approval of the 2014/15 MTREF in June 2014 directly aligned and informed by the 2014/15 MTREF.
6. Annual Report  
Annual report is compiled in terms of the MFMA and National Treasury requirements.
7. MFMA Training  
The MFMA training module in electronic format is presented at the Municipality's internal centre and training is ongoing.

#### **14. Quality Certificate**

I, Sihle Maxwell Mbili , the Municipal Manager of the Hibiscus Coast Municipality, hereby certify that the Draft Budget 2014/15 and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and Regulations made under the Act, and that the Draft Budget and supporting documentation are consistent with the Integrated Development Plan of the municipality.

.....  
**Sihle Maxwell Mbili ( Municipal manager)**  
**Hibiscus Coast Municipality**

.....  
**Date**